## Message Text

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R 211554Z SEP 76 FM SECSTATE WASHDC TO AMEMBASSY CARACAS USDEL MTN GENEVA

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E.O. 11652: N/A

TAGS: ETRD, VE

SUBJECT: TRADE POLICY TEAM CONSULTATIONS WITH VENEZUELA

1. TRADE POLICY TEAM, LED BY DEPUTY SPECIAL TRADE REPRESENTATIVE AMBASSADOR CLAYTON YEUTTER, MET WITH GOV OFFICIALS IN CARACAS SEPTEMBER 7 TO EXCHANGE VIEWS ON THE MULTILATERAL TRADE NEGOTIATIONS (MTN). GOV OFFICIALS OF INSTITUTE OF FOREIGN TRADE (ICE), FIGUEREDO, MOANACK AND PULGAR, WHO WERE ACCOMPANIED BY OTHER GOV OFFICIALS, INCLUDING REPRESENTATIVES FROM OFFICE OF PEREZ GUERRERO. DISCUSSIONS WERE FRANK, INFORMAL AND CORDIAL.

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2. AMBASSADOR YEUTTER REVIEWED OVERALL STATUS OF MTN AND SPECIFIC DEVELOPMENTS WITHIN EACH MTN GROUP AS IN PREVIOUS CONSULTATIONS IN BOGOTA, BUENOS AIRES, MONTEVIDEO AND BRASILIA (SEE SEPTELS). HE NOTED

POSSIBILITY OF A MINISTERIAL LEVEL TNC MEETING IN MARCH/APRIL 1977 TO PROVIDE POLITICAL COMMITMENT TO WIND UP MTN IN 1977; OBSERVED THAT PARTICIPATING COUNTRIES SHOULD CONSIBER STRENGTHENING THEIR GENEVA DELEGATIONS IN ANTICIPATION OF INCREASED ACTIVITY IN 1977 AND BECOMING GATT MEMBERS.

- 3. ICE DIRECTOR FIGUEREDO SAID VENEZUELA HAD "EXPECTATIONS' FOR MTN AND, FOR THE MOMENT, WAS NEITHER OPTIMIST NOR PESSIMIST CONCERNING NEGOTIATIONS. VENEZUELA DESIRED GATT TO BE AN EXCELLENT ORGANIZATION. AND WOULD CONTINUE TO STUDY POSSIOILITY OF GATT MEMBER-SHIP, 'HICH WOULD NOT OCCUR OVERNIGHT, HOWEVER, FIGUEREDO INDICATED GOV DID NOT HAVE A LARGER DELEGATION IN GENEVA AS VENEZUELA HAS A SHORTAGE OF TRAINED PROFESSIONALS IN THE FIELD. FIGUEREDO COMMENTED THAT VENEZUELA WAS MAKING MAJOR INVESTMENTS IN SEVERAL INDUSTRIAL SECTORS, AND WOULD BE MAJOR EXPORTER OF THESE PRODUCTS IN THE RELATIVELY NEAR FUTURE, MENTIONING THE POSSIBILITY THAT STEEL EXPORTS COULD INCREASE TO TEN MILLION TONS IN THE NEXT FIVE TO TEN YEARS, AND HENCE WAS INTERESTED IN ASSURING ACCESS FOR THESE NEW PRODUCTS. VENEZUELA WAS ALSO VERY INTERESTED IN NORTH-SOUTH DIALOGUE IN PARIS. AND DID NOT WANT TO SUBSTITUTE ONE FORUM FOR ANOTHER.
- 4. TARIFFS: AMBASSADOR YEUTTER DESCRIBED US POSITION IN TARIFFS NEGOTIATION, MENTIONING POSSIBILITY AGREEMENT MIGHT BE REACHED WITH MAJOR TRADING PARTNERS ON TARIFF FORMULA, AND ON GENERAL OUTLINE OF EXCEPTIONS POLICY AND SPECIAL AND DIFFERENTIAL TREATMENT (S AND D) FOR LDCS, HOPEFULLY PRIOR TO THE POSSIBLE MARCH/APRIL MINISTERIAL-LEVEL TNC MEETING. GOV DEL VIEWED GSP AND PREFERENCES AS ONE MEANS OF OBTAINING OBJECTIVE OF INCREASED EXPORTS BY LDCS, AND IF THERE WERE OTHER MEANS OF OBTAINING THIS SAME OBJECTIVE, THAT THESE SHOULD BE CONSIDERED. HOWEVER, IN PRINCIPLE, VENEZUELA BELIEVED PREFERENTIAL LIMITED OFFICIAL USE

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ARRANGEMENTS FOR LDCS, SUCH AS GSP, SHOULD BE MAINTAINED. ONE FORM OF S AND D VENEZUELA WOULD LIKE TO SEE WOULD BE IMPROVEMENTS IN GSP, INCLUDING SOME CONSIDERATION OF COMPENSATION ISSUE. GOV EXPRESSED SATISFACTION GATT SECRETARIAT WAS STUDYING EFFECTS OF TARIFF FORMULA ON LDCS, AND OBSERVED US TARIFF FORMULA WAS BEST FROM VIEWPOINT OF REDUCING TARIFF ESCALATION.

5. GOV DEL SAID ANDEAN GROUP HAD AGREED THAT COMMON EXTERNAL TARIFF (CXT) SHOULD NOT BE AT A HIGHLY PROTECTIONIST LEVEL. GOV CALCULATES AVERAGE TARIFF LEVEL FOR VENEZUELA AT FIVE PERCENT OF VALUE OF TOTAL

IMPORTS, WHEN IMPORT TARIFF EXONERATIONS ARE INCLUDED. GOV UNDERSTOOD THIS 'AS ONE OF LOWEST LEVELS IN THE WORLD. IT WAS OBSERVED THAT BOTH MTN AND ANDEAN GROUP IMPLEMENTATION OF CXT WERE SCHEDULED TO BE COMPLETED AT THE END OF 1977. AMBASSADOR YEUTTER NOTED

POTENTIAL CONFLICT BETWEEN US, WHICH WAS SEEKING TO PLACE MAXIMUM LIMITS ON TARIFFS, AS OPPOSED TO ANDEAN GROUP, WHICH WAS SEEKING TO AGREE ON MINIMUM LEVELS FOR CXT. HE REMARKED ANDEAN GROUP COULD CONSIDER A LOWERING OF THE CXT AS A "CONTRIBUTION" TO MTN, WHEREAS RAISING THE CXT WOULD NOT BE.

- 6. QUANTITATIVE RESTRICTIONS: AMBASSADOR YEUTTER OBSERVED THAT VENEZUELA AND BRAZIL HAD REFUSED TO CONSULT BILATERALLY ON QRS UNTIL S AND D FOR LDCS WAS AGREED UPON. HE SAID BRAZIL WAS CONSIDERING CHANGING ITS POSITION, AND HE HOPED VENEZUELA WOULD ALSO, NOTING NEED TO ESTABLISH NATURE OF QRS IN BILATERAL CONSULTATIONS BEFORE MULTILATERAL RULES COULD BE AGREED UPON. HE SAID HE DID NOT BELIEVE THAT GOOD FRIENDS AND MAJOR TRADING PARTNERS SHOULD EVER REFUSE TO DISCUSS PROBLEMS AMONG THEMSELVES.
- 7. GOV DEL PULGAR SAID IT WAS NOT LACK OF FRIENDSHIP THAT HAD LED VENEZUELA TO ADOPT A POSITION SIMILAR TO THAT OF BRAZIL, BUT THAT VENEZUELA FEARED THE NEGOTIATIONS WOULD BE BILATERALIZED IF CONSULTATIONS WERE HELD BEFORE THERE WAS AGREEMENT ON THE GENERAL LIMITED OFFICIAL USE

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RULES TO BE FOLLOED. HE OBSERVED THAT LDCS HAD MADE PROPOSALS FOR MULTILATERAL TREATMENT OF QRS, AND THEY LOOKED FORWARD TO RECEIVING US RECOMMENDATIONS. HE COMMENTED, HOWEVER, THAT PRINCIPAL SOURCE OF LDC PROBLEM IN QRS WAS NOT WITH THE US BUT WITH THE EC.

8. SUBSIDIES AND COUNTER-VAILING DUTIES: AMBASSADOR YEUTTER REVIEWED ACTIVITIES IN SUBSIDIES AND COUNTER-VAILING DUTIES GROUP, COMMENTING THAT AMBASSADOR GRAY WAS EXPECTED TO PRESENT A NEGOTIATING PROPOSAL THIS FALL. HE EMPHASIZED THAT DCS SHOULD NOT USE EXPORT SUBSIDIES AND THAT ONE GOAL IN MTN SHOULD BE TO SEEK ELIMINATION OF DC EXPORT SUBSIDIES, OR IF THIS GOAL PROVED NOT TO BE ATTAINABLE, AT LEAST TO SEEK TO LIMIT THEIR USE. HE OBSERVED THAT US HAD MADE A PROPOSAL FOR S AND D IN THIS AREA, WHICH WOULD INCLUDE THE USE OF SOME TYPES OF SUBSIDIES FOR GIVEN TIME PERIODS BY LDCS. CONCERNING VENEZUELAN AND BRAZILIAN POSITIONS THAT DCS SHOULD USE ADJUSTMENT ASSISTANCE IN THESE CASES, AMBASSADOR YEUTTER NOTED THAT US

COULD AGREE TO USE OF ADJUSTMENT ASSISTANCE IN CASES IN WHICH THE DOMESTIC INDUSTRY 'AS NOT COMPETITIVE. HOWEVER, US WOULD NOT ABANDON AN INDUSTRY IF ITS ONLY COMPETITIVE DISADVANTAGE WAS THE RESULT OF EXPORT SUBSIDIES.

9. PULGAR SAID VENEZUELA HAD MADE A PROPOSAL ON SUBSIDIES AND COUNTER-VAILING DUTIES, AND WAS PLEASED TO LEARN THAT LDCS COULD, UNDER CERTAIN CIRCUMSTANCES. USE EXPORT SUBSIDIES WITHOUT FEAR OF COUNTER-VAILING DUTIES. HE SAID REGULATION OF EXPORT SUBSIDIES UNDER ARTICLES 6 AND 16 OF THE GATT WAS NOT CLEAR, AND ANY NEW CODE WOULD NEED TO CLARIFY THE SITUATION. HE MENTIONED THE POSSIBILITY OF USING A MECHANISM SUCH AS A POSITIVE LIST OF APPROVED SUBSIDIES OR A NEGATIVE LIST OF PROHIBITED SUBSIDIES. AMBASSADOR YEUTTER AGREED THAT WHOLE AREA OF SUBSIDIES AND COUNTER-VAILING DUTIES IN THE GATT NEEDED TO BE CLARIFIED. US PROPOSAL, HOWEVER, CALLED FOR A DEFINITION OF THREE TYPES OF SUBSIDY PRACTICES. AS IT WOULD BE IMPOSSIBLE TO LIST SPECIFICALLY ALL TYPES OF SUBSIDIES IN USE OR THAT LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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## MIGHT BE DEVELOPED.

10. SAFEGUARDS: AMBASSADOR YEUTTER REFERRED TO US PROPOSAL ON SAFEGUARDS, 'HICH COULD BE IMPORTANT FOR VENEZUELA IN THE FUTURE AS IT SEEKS TO ENTER NEW MARKETS. HE SAID US SAFEGUARD PROPOSAL INCLUDED S AND D, HEN SAFEGUARD ACTIONS PROVED TO BE NEEDED, SUCH AS USING DIFFERENT HISTORICAL BASES, SPECIAL TREATMENT FOR NEW ENTRANTS TO MARKETS, AND RESERVING A PORTION OF THE MARKET RESTRICTED BY SAFEGUARD ACTIONS FOR LDCS. HE ALSO MENTIONED THAT IN ALL CODES THAT WERE BEING NEGOTIATED, AND ESPECIALLY IN GOVERNMENT PROCUREMENT, A KEY ISSUE WOULD BE PUBLIC PROCEEDINGS IN ORDER THAT ACTIONS WOULD BE VISIBLE.

- 11. PULGAR SAID THAT THE SAFEGUARDS PROPOSAL WAS RECENT, AND THAT VENEZUELA DID NOT YET HAVE A FIXED POSITION, BUT HE WAS PLEASED IT WOULD INCLUDE S AND D HE OBSERVED THAT MANY TIMES DCS CONTINUE SAFEGUARD ACTIONS FOR MUCH LONGER PERIODS THAN ARE JUSTIFIED.
- 12. TROPICAL PRODUCTS: AMBASSADOR YEUTTER REVIEWED SITUATION IN TP GROUP, STATING US WOULD NOT IMPLEMENT ITS TP OFFER UNTIL CONTRIBUTIONS FROM THE PRINCIPAL BENEFICIARY COUNTRIES WERE AGREED UPON. HE SAID EC HAD CHOSEN OPPOSITE COURSE OF PREPARING TP OFFER THAT WAS PRINCIPALLY GSP IMPROVEMENT AND THAT DID NOT REQUIRE CONTRIBUTIONS.US HAD AMONG ITS OPTIONS THAT OF REDUCING

ITS TP OFFER, SO AS NOT TO REQUIRE CONTRIBUTIONS, OR TO WAIT UNTIL THE END OF THE NEGOTIATIONS TO IMPLEMENT. US DEL OBSERVED VERY HIGH PROPORTION OF PRODUCTS REQUESTED BY VENEZUELA HAD BEEN INCLUDED IN US TP OFFER, AND THAT THESE MFN CONCESSIONS SHOULD BE OF CONSIDERABLE VALUE.

13. PULGAR COMMENTED ON VENEZUELA'S DIFFICULTY WITH US POSITION, NOTING THAT TOKYO DECLARATION HAD ESTABLISHED A SPECIAL SECTOR TO GIVE PRIORITY TREATMENT TO TROPICAL PRODUCTS, WHICH DID NOT JUST INCLUDE QUESTION OF TIMING, BUT SHOULD ALSO BE READ AS MEANING GREATEST POSSIBLE ELIMINATION OF RESTRICTIONS. PULGAR WAS CONCERNED THAT LIMITED OFFICIAL USE

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TP NEGOTIATIONS WERE NOT BEING TREATED AS A SEPARATE SECTOR IN THAT NTBS WERE NOT ALSO BEING NEGOTIATED. HE REPEATED GENERAL LDC LINE THAT VENEZUELA WILL MAKE A GLOBAL CONTRIBUTION AT THE END OF MTN BASED ON NET BENEFITS RECEIVED, NOTING THAT THIS IS NOW A "POLITICAL" POSITION FOR LDCS. AFTER INITIALLY SUGGESTING THAT TOKYO DECLARATION CALLS FOR NON-RECIPROCAL CONCESSIONS BY DCS, VENEZUELA DEL THEN AGREED THAT INTENT IS RELATIVE RECIPROCITY, AND THAT A NEGOTIATION INVOLVES CONTRIBUTIONS BY BOTH PARTIES.

14. FRAMEWORK IMPROVEMENT: AMBASSADOR YEUTTER NOTED BRAZIL'S PROPOSAL FOR ESTABLISHMENT OF AN MTN FRAMEWORK IMPROVEMENT GROUP, AND REVIEWED US POSITION, INCLUDING DESIRE THAT SUPPLY ACCESS ALSO BE CONSIDERED. PULGAR SAID GOV WAS INTERESTED, AND SUPPORTED FORMATION OF FRAMEWORK GROUP, WHICH SHOULD NOT DUPLICATE OTHER WORK IN MTN. HE NOTED NEGATIVE RESULTS TO DATE IN SOME OTHER MTN GROUPS ON S AND D PROPOSALS. AND EXPRESSED HOPE FRAMEWORK GROUP WOULD BE ABLE TO TAKE ACTION ON CONCRETE PROPOSALS. HE FOUND PROPOSED INITIAL AGENDA INTERESTING, AND BELIEVED THAT MORE SHOULD BE DONE TO MAKE PART IV OF GATT EFFECTIVE, NOTING THERE WAS NO RELATION BETWEEN PART IV AND OTHER THREE PARTS OF GATT. PULGAR COMMENTED. HOWEVER, THAT SUPPLY ACCESS WAS NOT MENTIONED IN TOKYO DECLARATION. ANDEAN GROUP HAD TAKEN A POSITION THAT SINCE SUPPLY ACCESS NOT INCLUDED IN TOKYO DECLARATION, THAT IT WOULD BE VERY DIFFICULT FOR THEM TO ACCEPT ITS CONSIDERATION IN MTN.

15. AMBASSADOR YEUTTER OBSERVED THAT IF TNC, AS THE PARTIES TO THE TOKYO DECLARATION, AGREED UPON THE INCLUSION OF SUPPLY ACCESS, THAT SHOULD BE SUFFICIENT AUTHORITY, ADDING THAT THE GATT NEEDED TO IMPROVE THE RULES RELATING TO SUPPLY ACCESS AND EXPORT RESTRICTIONS. AMBASSADOR YEUTTER SAID THAT WITHOUT AGREEMENT TO

INCLUDE THIS QUESTION, IT WOULD NOT BE POSSIBLE FOR US TO AGREE TO FORMATION OF FRAMEWORK GROUP; US WAS WILLING TO HAVE A FRAMEWORK GROUP, BUT IT SHOULD CONSIDER QUESTIONS OF INTEREST TO BOTH DCS AND LDCS.

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16. US DEL ALSO MET WITH THE VENEZUELAN EXPORTERS ASSOCIATION (AVEX) PRIOR TO CONSULTATION WITH THE GOV. AMBASSADOR YEUTTER BRIEFLY REVIEWED MAJOR NEGOTIATION GROUPS IN MTN AND THEIR RELEVANCE TO VENEZUELAN PLANS FOR EXPORT DIVERSIFICATION. HE NOTED THAT VENEZUELA. UP TO THE PRESENT TIME, HAD NOT PARTICIPATED VERY ACTIVELY IN THE MTN, AND SUGGESTED THAT IT WOULD BE IN THE COUNTRY'S INTEREST TO PLAY A GREATER ROLE IN GENEVA. IN RESPONSE TO AN INQUIRY CONCERNING POSSIBLE REMOVAL OF THE EXCLUSION OF VENEZUELA FROM US/GSP BENEFITS. AMBASSADOR YEUTTER INDICATED THAT PROSPECTS DO NOT APPEAR FAVORABLE DURING 1976 AS THE CONGRESS, DURING THE REMAINING THREE WEEKS OF THE SESSION, WILL BE DEVOTING PRIORITY ATTENTION TO TAX REFORM. HE THEN NOTED THAT, REGARDLESS OF VENEZUELA'S STATUS RE GSP, THE MTN OFFERS VENEZUELA THE OPPORTUNITY TO OBTAIN PERMANENT MFN TARIFF BENEFITS AS OPPOSED TO THE TEMPORARY ONES CONTAINED IN GSP SYSTEMS. THE US IS WILLING, FOR EXAMPLE, TO CONSIDER DEEPER THAN FORMULA TARIFF CUTS FOR PRODUCTS OF SPECIAL INTEREST TO VENEZUELA, BUT VENEZUELA MUST MAKE ANY SUCH INTERESTS KNOWN.

17. MUCH OF THE REMAINDER OF THE MEETING WAS TAKEN UP BY VENEZUELAN COMMENTS ON TECHNOLOGY TRANSFER. US DEL WAS ABLE, HOWEVER, TO POINT OUT NEED FOR REDUCTION OF BARRIERS, PARTICULARLY BY THE EC AND JAPAN, TO AGRICULTURAL EXPORTS AND TO INDICATE THAT THE US COULD NOT ACCEPT MAINTENANCE OF PREFERENCE MARGINS FOR LDCS IN MTN. IN RESPONSE TO A GENERAL COMPLAINT RE US SANITARY REGULATIONS, AMBASSADOR YEUTTER STRESSED THAT REGULATIONS HAVE NO INTENT TO DISCRIMINATE, ARE APPLICABLE TO DOMESTIC AS WELL AS IMPORTED PRODUCTS, AND THAT THE US WOULD PROMPTLY CONSIDER CHANGES IF SCIENTIFIC EVIDENCE INDICATED PRESENT REGULATIONS WERE INAPPROPRIATE.

18. COMMENT: VENEZUELA WAS NOT AS WELL INFORMED AS COLOMBIA, BRAZIL, OR ARGENTINA ON MTN, BUT 'AS SOMEWHAT MORE CURRENT THAN URUGUAY. VISIT WAS HELPFUL IN FOCUSING ATTENTION OF KEY DECISION MAKERS THAT IMPORTANT DEVELOPMENTS FOR FUTURE OF VENEZUELA TRADE ARE UNDER NEGOTIATION IN MTN. SURPRISINGLY, ISSUE OF VENEZUELA LIMITED OFFICIAL USE

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GSP EXCLUSION DID NOT FEATURE PROMINENTLY IN MEETINGS, AND WHEN DISCUSSED IN SIDE CONVERSATIONS, GOV SEEMED TO INDICATE HIGH-LEVEL UNDERSTANDING OF PRESENT SIT-UATION. ROBINSON

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